

**FINANCIAL ACCOUNTING
FOR
NEW JERSEY SCHOOL DISTRICTS**

THE AUDIT PROGRAM

**STATE OF NEW JERSEY
DEPARTMENT OF EDUCATION
DIVISION OF FINANCE
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INTRODUCTION

This manual entitled Financial Accounting for New Jersey Public School Districts, (The Audit Program), was revised in 1994 with the implementation of generally accepted accounting principles (GAAP) by New Jersey school districts on July 1, 1993 and is updated annually. It includes instructions for both district personnel and public school accountants regarding preparing for and performing the annual audit.

The Comprehensive Annual Financial Report, (CAFR) is the basis for the annual audit. The CAFR should include all the disclosures required under GAAP reporting. New Jersey state law and administrative code (*N.J.S.A.18A:4-14* and *N.J.A.C. 6A:23-2*) require school districts to follow GAAP. These principles are augmented with the release of statements from the Governmental Accounting Standards Board (GASB). In June 1999 GASB released Statement No. 34 (**GASB 34**) that requires changes in financial reporting for state, local and special purpose governments including school districts. On March 1, 2001, the department issued a memorandum to Chief School Administrators, School Business Administrators and Board Secretaries, and Charter School Lead Persons providing an overview of the GASB 34 requirements and the implementation issues identified by a working group led by New Jersey Association of School Business Officials (NJASBO GASB 34 Taskforce). This group included school business administrators, department staff, and public school accountants. The working group met several times to address key issues related to implementation of GASB 34 in New Jersey's school districts.

The following table specifies when districts are required implement GASB 34.

Districts with total annual revenues at June 30, 1999	Implement GASB 34 for fiscal year beginning
\$100 million or more (phase 1)	July 1, 2001
At least \$10 million but less than \$100 million (phase 2)	July 1, 2002
Less than \$10 million (phase 3)	July 1, 2003

This schedule requires districts with total annual revenue (governmental and enterprise funds) of \$100 million or more (for the fiscal year ending June 30, 1999) to implement GASB 34 for the fiscal year beginning July 1, 2001. The department issued a memorandum on August 2, 2000 to districts that were identified based on transmitted audit summary (audsum) information, as having total revenues of \$100 million or more and subject to GASB 34 implementation beginning July 1 2001.

The department issued a memorandum to Chief School Administrators and School Business Administrators in December 2001 on the subject *GASB 34 Implementation for Component Units*. Based on guidance from GASB, the Division of Local Government Services and the New Jersey Society of Certified Public Accountants Governmental Auditing and Accounting Committee (NJSCPA GAAC), the department considers county vocational, county special services and Type I school districts to be component units of either their applicable primary government, i.e., county or municipal government. GASB 34 requires component units to implement GASB 34 no later than the same year as their primary government, regardless of the amount of each component unit's total revenues. The component unit is required to implement GASB 34 when the primary government would have been required to implement had they been on a GAAP basis of accounting, regardless of whether the primary government is on GAAP or not.

Annual revenue as defined in GASB 34 has been further clarified in the GASB Implementation Guide, Guide to Implementation of GASB Statement 34 on Basic Financial Statements – and

Management's Discussion and Analysis – for State and Local Governments and should be computed using the modified accrual (GAAP) basis rather than budgetary. Since audsum data is on a budgetary basis, the department recommended that every district consult with its auditor to determine in which year the district should implement GASB 34. A district that meets the criterion for phase 1 must implement GASB 34 financial reporting requirements for the year ending June 30, 2002.

The *Outline for Comprehensive Annual Financial Report* section at the end of this introduction provides additional information on the CAFR. Throughout this Audit Program sections that are applicable to GASB 34 implementation are headed or noted **GASB 34 Model**.

There are many reference materials published by outside organizations that are available to provide guidance in report preparation. The Government Finance Officers Association (GFOA) publishes Governmental Accounting, Auditing and Financial Reporting, commonly known as the "blue book" that is used nationwide as a reference tool for CAFR preparation. A "Supplement" was published in January 1999. A revised publication, which is updated for GASB 34, is also available through the GFOA. The American Institute of Certified Public Accountants (AICPA) issues a publication Checklist and Illustrative Financial Statements for State and Local Governmental Units that is a recommended reference for disclosure requirements. The Association of School Business Officials International offers a Certificate of Excellence in Financial Reporting by School Systems Program that awards certificates to those annual reports that fully meet the requirements established by GAAP and publishes a self-evaluation worksheet that may also be used as a tool in report preparation.

Governmental GAAP requires the issuance of a CAFR by every school district, along with interim financial statements to facilitate management control of financial operations. Financial statements are the responsibility of the board of education's management and are its representation of the financial position at a given point in time and the operations of the district during a period of time. In January 2002, the General Accounting Office (GAO) announced revisions to the auditor independence requirements under Government Auditing Standards (3.11 et seq.). The Government Auditing Standards are commonly referred to as the "Yellow Book" and cover organizations that expend \$300,000 or more in federal financial assistance, and as required by Circular Letter 98-07-OMB, New Jersey school districts that expend \$100,000 or more in State and/or federal financial assistance in their fiscal year. The most significant change relates to the rules associated with nonaudit and consulting services performed by those who also plan, conduct and review audit work. The department recommends that district management and auditors give careful consideration to this change in the independence standard and its impact on the auditors of the district financial statements. The revised standards are effective for periods beginning on or after October 1, 2002. Early implementation is encouraged. The new audit standard is available on GAO's web site at <http://www.gao.gov/govaud/ybk01.htm>.

The Department of Education requires the submission of the reports described below on or before the statutory deadline (November 6, 2002 for 2001-2002 audits):

1. The CAFR

The CAFR is the district's official annual report. It should include all of the funds and account groups of the LEA. It is organized into three primary sections: 1) an introductory section, 2) a financial section, and 3) statistical section. If a district falls under the reporting requirements of the Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996, and/or the reporting requirements under NJOMB Treasury Circular Letter 98-07 the CAFR will also contain a single audit section. This report will strictly adhere to the following Outline of the CAFR located on pages vi through ix for districts (**GASB 34 Model - pages x through xii**). The

report must include all sections, letters and exhibits in the applicable sample CAFR as they apply to each school district as well as any additional statements, schedules, and disclosures required under the circumstances of the district. The report must also include all applicable single audit opinion letters prepared by the local school district's auditors in the single audit section. The opinion letters must be in conformance with the applicable sample single audit letters located in Section III – Chapter 2 of The Audit Program.

Auditor's Note – Auditors should review the *Abbott Addendum to The Audit Program for Reporting Whole School Reform Activities in First, Second, Mid-Year Second and Third Cohort Schools 2001 – 2002* (The Abbott Addendum) for items that specifically relate to Abbott districts.

2. The Auditor's Management Report on Administrative Findings, Financial, Compliance and Performance

This separate report will serve as the auditor's report on management. This report must be submitted together with the CAFR to the Department of Education in order to comply with Finance Policy Bulletin 200-1. A sample Auditor's Management Report is located in Section III – Chapter 4.

3. Audit Summary Worksheet

The Audit Summary Worksheet diskette is to be completed by the auditor and submitted with the CAFR and the Auditor's Management Report to the Department of Education. This information is used by the Department of Education for a variety of purposes, including downloading into the actual column of the budget software issued by the department. **It is very important that auditors and district personnel pay particular attention to the accuracy of the data.**

The procedure for submission of the two separate reports was adopted by the Department of Education to conform with the common practice for CAFR presentation followed by other school districts throughout the country. The two reports have separate, distinct purposes. The CAFR is the financial report presented to the board that is required for conformance with GAAP. The Auditor's Management Report is the auditor's report to the board of education of his/her findings and recommendations as a result of the audit. In accordance with OMB Circular A-133, the CAFR will also be submitted to the Federal Audit Clearinghouse as part of the reporting package along with the data collection form in cases where a federal single audit of the district is required.

USOMB Circular A-133 and NJOMB Circular Letter 98-07 require that the Schedule of Findings and Questioned Costs contain, but not be limited to, reportable conditions in internal control over major programs, material non-compliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program, and known questioned costs which meet the threshold as defined in Circular A-133. *N.J.S.A. 18A:23-9* states that the auditor "...report any error, omission, irregularity, violation of law, together with recommendations, to the board of education of each school district." Accordingly, the Auditor's Management Report must include **all** findings, including any items contained in the Schedule of Findings and Questioned Costs.

The statutory deadline for submission will be strictly enforced. State aid will be suspended consistent with N.J.S.A. 18A:55-2 for any district with an audit report, including the Audit Summary Worksheet Diskette, outstanding after the November 6, 2002 submission date.

The Commissioner will also consider exercising his statutory authority (*N.J.S.A. 18A:23-6*) to appoint auditors for districts failing to meet the statutory deadline or invoking other administrative actions. This will apply to all late audits.